

COMPENSATION BOARD

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2007 AND JUNE 30, 2008**



AUDIT SUMMARY

Our audit of the Compensation Board, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- a matter involving internal control and its operations necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations or other matters that is required to be reported.

AUDIT FINDING AND RECOMMENDATION

We have identified an internal control weakness in the calculation of excess fees for constitutional officers. Code of Virginia §17.1-285 requires that the Compensation Board calculate fees in excess of required costs of the Courts of Virginia and remit two-thirds of the excess collected to the Local Government that pays the salaries of the courts. The remaining one-third is retained by the Commonwealth. Because the Clerks of the Courts manually enter fee revenue into the Compensation Board's Constitutional Officer Information Network system and those entries are not validated against any other source of data, the Compensation Board cannot accurately assert that Excess Fees have been properly calculated. This issue is discussed further in the section entitled "Audit Finding and Recommendation."

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDING AND RECOMMENDATION	1
AGENCY HIGHLIGHTS	2-4
AUDIT OBJECTIVES	5
AUDIT SCOPE AND METHODOLOGY	5-6
CONCLUSIONS	6
EXIT CONFERENCE AND REPORT DISTRIBUTION	6
AGENCY RESPONSE	7-8
AGENCY OFFICIALS	9
APPENDIX A: EXCESS FEE PROCESS	10

AUDIT FINDING AND RECOMMENDATION

Improve Data Integrity of COIN System

The State Compensation Board should strengthen internal controls to ensure data integrity within the Constitutional Officers Information Network (COIN). The COIN system gathers clerk fee revenue data from Circuit Courts to calculate excess fees. Excess fees are used to divert an additional portion of state revenue collected by Courts to local governments whose courts' collect more fees.

The Compensation Board does not reconcile the fee revenue data gathered in COIN from the Circuit Court Clerks to the originating Financial Management System (FMS) of the Courts. Because this is a decentralized manual process, failure to reconcile these differences increases the risk of errors or fraud by Circuit Court Clerks that could go undetected.

As an example, during the audit period, the Circuit Court Clerk's office in the City of Hampton erroneously keyed clerk court fee revenue incorrectly into COIN, overstating the January 2007 excess fee calculation in the COIN system. This error resulted in a \$7.4 million overpayment to Hampton City. Once the City of Hampton identified the overpayment, they contacted the Compensation Board and it was transferred back to the Commonwealth the following day, within two weeks of initial payment.

In response, the Compensation Board staff added an edit to the COIN system that will warn users if total fees entered vary more than 10 percent from the prior month. Although the Compensation Board staff has provided a quick remedy to mitigate the magnitude of these types of transactions, the Board still has no assurance that Circuit Court Clerks are properly keying data to the COIN system.

We recommend the Compensation Board either gain access to FMS reports in order to perform regular reconciliations of FMS to COIN, or that the Board seek regular data file transfers from the Court's FMS system to automatically populate the necessary data fields in COIN. Either of these options will greatly enhance the completeness and accuracy of COIN data and ensure proper excess fee payments in the future.

AGENCY HIGHLIGHTS

Overview

The Board consists of the Auditor of Public Accounts and the State Tax Commissioner as ex-officio members, and one member appointed as Chairman by the Governor. The Board has responsibility for:

- Determining the state's share of Constitutional Officers' (county and city Sheriffs, Treasurers, Commissioners of Revenue, Commonwealth's Attorneys, and Clerks of the Circuit Court) budgets and reimbursing localities for Constitutional Officers' salaries and expenses.
- Reimbursing local governments and regional jails for the state's share of holding inmates and reporting weekly on jail population.
- Providing an annual report of the Courts and Commonwealth's Attorneys collection of court fines and fees.
- Issuing an annual report of jail revenues and expenditures for all local and regional jails and jail farms that receive Compensation Board funding.
- Administering the Technology Trust Fund to reimburse Clerks of the Circuit Court for automation of land records.

Excess Fees

Code of Virginia §17.1-285 requires that the Compensation Board calculate fees in excess of incurred costs of the Courts of Virginia to operate. Two-thirds of the excess collected by Courts to fund operations is remitted to the Local Governments that pay the salaries and expenses for the respective Courts. The remaining one-third is retained by the Commonwealth. Each month the Board performs a calculation based upon the fees that Circuit Court Clerks collect and the expenses paid by the Board for the prior month. Any resulting excess is split as described above.

This process relies on two key pieces of information: Court Fee revenue which is self-reported by the Clerks of the Courts to the Compensation Board; and the actual payments from the Compensation Board to the Local Governments that pay the salaries and expenses for the respective Courts. The entire excess fee process is documented in Appendix A of this report.

Financial Activity

Ninety-eight percent of the Board's funding comes from General Fund Appropriations. The remaining funding is attributable to the Technology Trust Fund for the Clerks of the Circuit Courts. The Board passes through nearly 99 percent of its funding to various Constitutional Officers across the Commonwealth, while retaining one percent to fund its internal operations. The following tables summarize the Board's financial activity for the fiscal years ending June 30, 2008 and 2007.

Compensation Board Schedule of Program Expenses For the Year Ended June 30, 2008

<u>Program</u>	<u>Original Budget¹</u>	<u>Final Budget²</u>	<u>Expenses³</u>
Sheriffs' offices and regional jails	\$370,861,519	\$402,029,132	\$400,427,626
Confinement of inmates in local and regional facilities	70,734,695	81,158,327	80,596,954
Attorneys of the Commonwealth	62,130,515	64,055,192	63,533,494
Clerks of the Circuit Court	50,452,705	52,524,083	51,864,216
Local Commissioners of the Revenue	18,410,707	19,959,498	19,836,547
Local treasurers	18,945,522	20,002,946	19,860,153
Local finance directors	5,958,739	6,637,815	6,628,607
Administrative and support services	<u>7,459,491</u>	<u>7,762,189</u>	<u>7,716,710</u>
Total	<u>\$604,953,893</u>	<u>\$654,129,182</u>	<u>\$650,464,307</u>

Source:

¹Appropriations Act (Chapter 847 of the 2007 Acts of the Assembly)

²Appropriations Act (Chapter 847 of the 2008 Acts of the Assembly)

³Commonwealth Accounting and Reporting System

Compensation Board
Schedule of Program Expenses
For the Year Ended June 30, 2007

<u>Program</u>	<u>Original Budget¹</u>	<u>Final Budget²</u>	<u>Expenses³</u>
Sheriffs' offices and regional jails	\$370,290,998	\$383,056,557	\$381,244,277
Confinement of inmates in local and regional facilities	70,734,695	80,828,439	80,620,123
Attorneys of the Commonwealth	57,854,164	59,590,516	57,147,492
Clerks of the Circuit Court	49,986,149	51,071,431	49,081,146
Local Commissioners of the Revenue	18,230,107	19,042,057	18,994,805
Local treasurers	18,733,834	19,407,285	18,767,036
Local finance directors	5,861,539	6,354,249	6,338,290
Administrative and support services	<u>7,504,204</u>	<u>7,649,908</u>	<u>7,537,869</u>
Total	<u>\$599,195,690</u>	<u>\$627,000,442</u>	<u>\$619,731,038</u>

Source:

¹Appropriations Act (Chapter 3 of the 2006 Acts of the Assembly Special Session)

²Appropriations Act (Chapter 847 of the 2007 Acts of the Assembly)

³Commonwealth Accounting and Reporting System



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

January 30, 2009

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Compensation Board** for the years ended June 30, 2007, and June 30, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor of Public Accounts is an ex-officio member of the Compensation Board. He has knowledge of the relevant reporting requirements and generally accepted government auditing standards. This audit has been conducted in accordance therewith, and, in the opinion of management, his independence has not been compromised, as he neither directly nor indirectly participated in the audit, nor did he instruct the auditors in any manner as to the conduct of the audit.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Board's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Compensation Board's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit

procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Transfer Payments
- Payroll Transactions
- Application Access
- Excess Fee Payments

We performed audit tests to determine whether the Board's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Board's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Compensation Board properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Compensation Board records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Finding and Recommendation."

Exit Conference and Report Distribution

We discussed this report with management on February 10, 2009. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

FRANK DREW
CHAIRMAN

W.J. KUCHARSKI
JANIE E. BOWEN
EX-OFFICIO MEMBERS



ROBYN M. DE SOCIO
EXECUTIVE SECRETARY

WADE A. JEWELL
ASSISTANT EXECUTIVE SECRETARY

COMMONWEALTH OF VIRGINIA

Compensation Board

P.O. Box 710
Richmond, Virginia 23218-0710

February 16, 2009

MEMORANDUM

TO: Office of the Auditor of Public Accounts

SUBJECT: Agency Response to Audit Report and Finding

Thank you for the opportunity to review your preliminary report of the Compensation Board's audit for the fiscal years ended June 30, 2007 and June 30, 2008 and to respond to the finding noted in the report.

Following implementation of the Compensation Board's reimbursement system in 1996 (SNIP), an interface with the Supreme Court of Virginia (SCV) was developed for the purpose of capturing fee information. The Compensation Board ran a monthly program through SNIP, creating a tape that updated the "Total Fees Collected" and/or "Supplements" (fee data) from the SCV's Financial Management System (FMS) into the SNIP system. The interface to SNIP, however, would only update those offices that had not already entered their own fee amounts into the reimbursement system. As part of the certification process, the SNIP system would not allow the Clerk to certify the accuracy of fee and expenditure information to request reimbursement prior to updating the fees field. There were some Clerks' offices that were not automated at that time, and the fees did not update to the fields in SNIP from the SCV – fee information for those offices was entered manually by the Clerk.

In December 2005 the Compensation Board implemented a new reimbursement system commonly referred to as COIN (Constitutional Officer Information Network). As a result of the implementation of the new COIN system, with believed updates to the SCV's FMS system, the interface to capture fees data from the SCV did not carry forward. Immediately following the January 2007 overpayment to Hampton City, Compensation Board staff implemented an edit to COIN that would flag fee data input by Clerks that varied by more than 10% from the previous month. This procedure required additional input data review by the Clerk and Compensation Board staff to ensure improved accuracy.

The Compensation Board has met with staff of SCV and is currently in progress on a plan to re-implement a data interface with the SCV to capture and reconcile fee data for each Clerk's office. Beginning February 27, with fee amounts data for February, 2009, COIN will be pre-loaded each month with data directly from the SCV's FMS. Circuit Court Clerks will be required to verify and certify the pre-loaded data each month, and will not be able to directly update or change SCV supplied amounts, but will be able to provide commentary notes regarding the data for verification purposes. Compensation Board staff anticipates that summary data will also be available through SCV for the Fairfax County Circuit Court, which does not participate in the SCV's FMS.

Reports are currently available to Clerks' offices from the SCV FMS providing fee information for entering into the COIN system. The Compensation Board is currently working with SCV to get this monthly report data in downloaded format for summary, verification and reconciliation purposes.

MEMO: Office of the Auditor of Public Accounts
February 16, 2009
Page 2

During systems' development and/or modifications for both SNIP and COIN, the Compensation Board has worked closely with APA management to ensure compliance with respective internal controls and policies prior to implementation. We will continue this approach as we move forward with these modifications and with all future, similar projects.

Please let me know should you have any additional questions or need further information.

Sincerely,

A handwritten signature in black ink, appearing to read "Robyn M. de Socio", with a stylized flourish at the end.

Robyn M. de Socio
Executive Secretary

cc: Compensation Board Members
Wade A. Jewell, Assistant Executive Secretary
Linda Gutshall, Fiscal Officer

AGENCY OFFICIALS

COMPENSATION BOARD
Richmond, Virginia

Frank Drew, Chairman

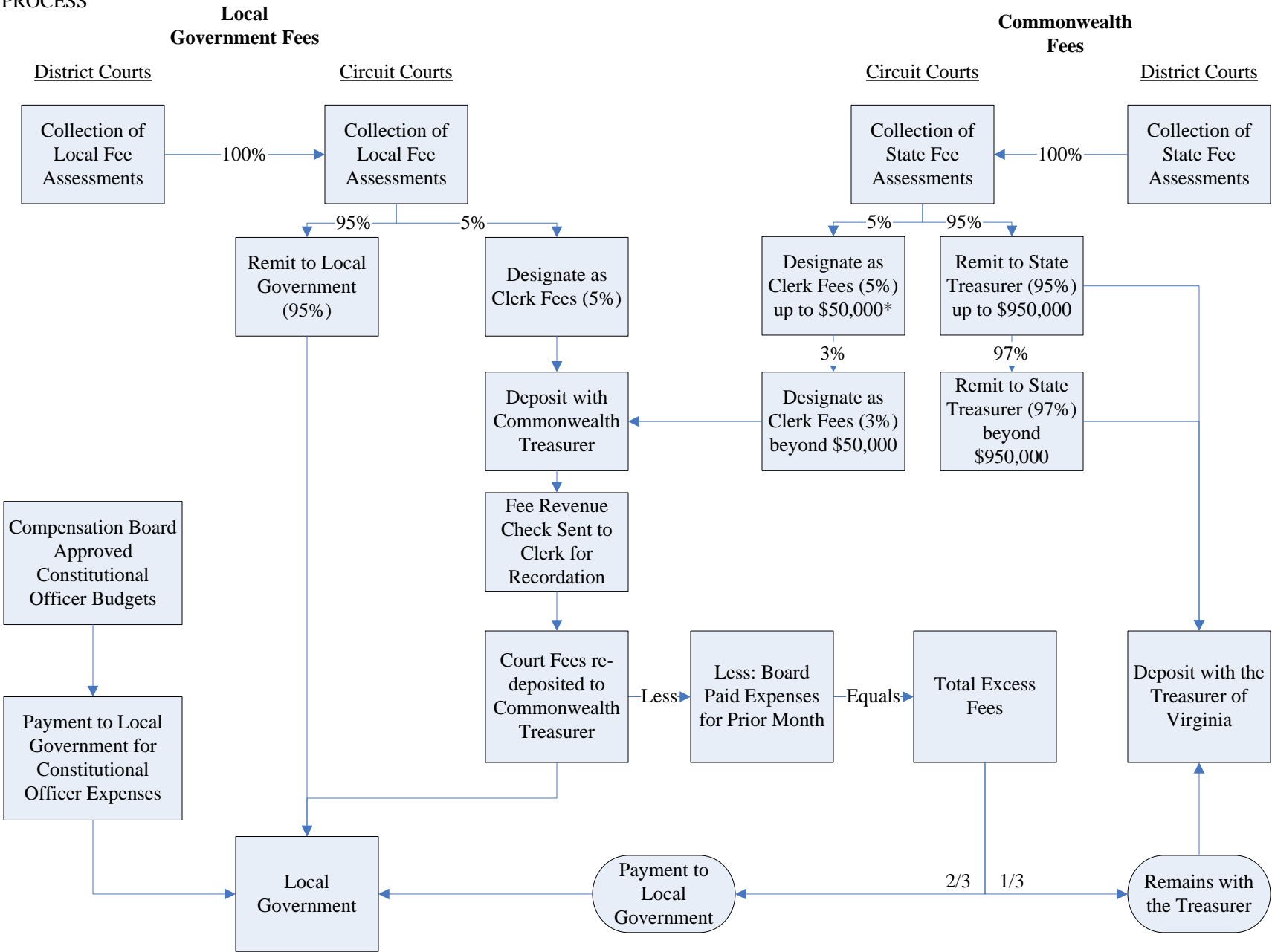
Janie E. Bowen, Ex Officio

Walter J. Kucharski, Ex Officio

Robyn DeSocio, Executive Secretary

APPENDIX A
EXCESS FEE PROCESS

10



Notes: * The first \$50,000 in a six month period is retained as a clerk fee, once that threshold is met the clerk fees drop to 3% of any total fee collections beyond \$1 million.